SYNOPSIS

PERFORMANCE OF COMMERCIAL BANKS WITH SPECIAL REFERENCE TO PRIORITY SECTOR LENDING

(A CASE STUDY OF SRIKAKULAM DISTRICT)

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PRIORITY SECTOR LENDING – MEANING

Priority sector lending is a scheme which is intended to give loans to the important sectors of the economy (agriculture, small scale industries etc.) in such a way to ensure maximum credit flow to the last man in the last village of the country through a strong banking network.

The basic objective of setting up of priority sector targets / sub-targets has been to ensure greater flow of credit to certain sectors where credit would "normally" not flow to the desired extent.

Priority sector lending is intended to fulfill the following objectives:

- Increase in production of agriculture and allied activities
- Improving the standard of living of the people
- Improving the rural non-farm sector

IMPORTANCE OF PRIORITY SECTOR LENDING

India is the second largest populous country in the world with a population of 1.21 billion people by the end of the year 2011. The independent India has inherited several problems like poverty, unemployment and regional imbalances. Hence, the prime duty before the rulers of independent India was to overcome these problems and to lead the country towards progress. The per capita income is quite negligible compared to other developed countries and thus India is classified as an under developed economy at the time of independence.

Since the process of development has initiated now, it is being classified as developing economy according to U.N. definition. A developing country, also known as

a less-developed country (LDC) is a nation with a low living standard, undeveloped industrial base and low Human Development Index (HDI) relative to other countries. Low per capita income, heavy population, low technology levels and illiteracy are directly responsible for the poor state of the country on the one side and the political, economic and social factors are indirect hindrances on the other side. The Government of India addressed these problems by adopting a socialistic pattern of society.

Implementation of five year plans or growth in the banking sector did not result in reduction of poverty and income inequalities across the regions and various groups of people. Hence, the policy makers identified the areas on which greater emphasis is needed to achieve the twin objectives i.e., economic growth and social justice. These areas are termed as priority sectors which include agriculture, small scale industries and exports. With the objective of saving the poor man from the clutches of usurious money lenders, the government initiated steps like social control and nationalization of banks.

The scheme of social control was aimed at equitable distribution of lendable resources as well as effective mobilization of savings. Social control was intended to give a shift from 'class banking' to 'mass banking'. In other words, Social banking refers to the policy induced bank assistance to the designated priority sectors of the economy and weaker sections of the community (Garg, 1994). Through nationalization, banks are directed to lend money to the priority sectors whose development is essential to uplift the country from poverty and unemployment. The nationalization of banks in 1969 led to a considerable reorientation of bank lending especially to the priority sectors of the economy, which had not previously received sufficient attention from the commercial banks. Banks play an important role for the economic development of any country either

developing or developed. Nationalization of banks has brought a sea change both in its operations and growth. Indian banking industry has been successful to a great extent with basic services which are imperative for any growing economy to provide to its citizens in order to move on the path of inclusive growth.

Inclusive growth is possible when the hitherto neglected sectors are identified. Agriculture is one of such sectors which are central to India's economic development. Agricultural growth decelerated from 3.1 per cent during the 1990s to 2.2 per cent in the Tenth Plan period. This could be attributed to declining public investment in agriculture and reduced flow of credit to agriculture. This has resulted into a crisis and several farmers committed suicides. The growth in agriculture has declined due to lack of access to rural credit. Today it is regarded as the main drag on the Indian economy. More importantly, it has snowballed into a veritable agrarian crisis, with thousands of farmers taking their own lives, and many others (in over 25 percent of India's districts) taking to the gun. Owing to the prudential norms and strict supervision of RBI, bank credit to priority sectors has drastically reduced. The flow of credit to agriculture sector during the 30 year period from 1975 to 2005 had significantly declined, especially after the introduction of banking sector reforms. The share of those farmers, borrowing less than Rs.25,000 declined in both the total number of loan accounts and total amount during the reform period. Agriculture finance during the reform period has basically gone in favour of the large and medium farmers for obvious reasons.

Micro Small and Medium Enterprises (MSME) sector is playing an important role in Indian economy in employment generation, exports and economic empowerment of large sections of the society. There are about 2.6 crore enterprises in this sector. This

sector accounts for 45 per cent of the manufactured output and 8 per cent of the Gross Domestic Product (GDP). MSMEs contribute nearly 40 per cent of all exports from the country. MSMEs are creating employment for nearly 6 crore people which is next only to the agriculture sector. It is the best vehicle for inclusive growth. The Government of India enacted the Micro, Small and Medium Enterprises Development Act 2006. This Act has rightly given high priority to this sector in order to achieve balanced, sustainable, more equitable growth in the country. Advances extended to the Micro and Small Enterprise (MSE) sector are treated as priority sector advances. As per the guidelines, banks are required to extend at least 60 per cent of their advances to Micro enterprises out of the total advances granted to MSE sector. MSEs primarily rely on bank finance for a variety of purposes including purchase of land, building, plant and machinery etc. They also need loans for working capital and exports receivables financing etc. As on March 2009, the total outstanding credit provided by all scheduled commercial banks to the MSE sector was Rs.257361 crore. It constitutes 11.4 per cent of the net bank credit.

However, the Small Scale Industries (SSIs) are becoming sick due to various reasons. Owning to this, the non-performing assets are mounting over the years. Hence, the bankers are hesitant to provide credit to SSIs. In this context, the Central Government and RBI appointed several committees to review the credit to SSIs. All these committees had voiced their concerns over the SME sector suffering due to the non-release of adequate and timely finance. They made recommendations for easy access to credit and its flow to the SSI/SME sector. The RBI has issued several guidelines to Banks and Financial Institutions for credit dispensation to the SME sector.

In this context, the contemporary experience of China is illuminating. China's manufacturing power is reshaping the world economy. The secret behind the success of China is its rural non-farm sector. The rural non-farm sector comprises, "the small scale food processing plants, machinery repair shops and increasingly more modern and technologically intensive industries that cropped up to meet growing demand among increasingly well-off farmers and employ millions of people whose labour was no longer needed on farms."

In view of the spectacular growth in services sector and reasonably good growth in manufacturing sector, there is a substantial fall in the share of agriculture in Gross Domestic Product (GDP) over the years. Despite these developments, agriculture continues to play important role in the economy and in Government's policies and programmes. More than half of the population still depends upon agriculture and allied activities for their livelihood. Around 15 per cent of exports are dependent on agriculture and agro processing. Above all, agriculture is most crucial for the country's food security. The capital formation in agriculture continues to be low (average around 2 per cent of GDP). Share of public sector investment in agriculture has declined/stagnated over the years (average around 20 per cent). Therefore, banks' credit, as major component of private investment, plays an important role to provide required investment for desired growth in agriculture.

The National Development Council, while stating the objectives of 11th Five Year Plan" has made the following statement:

"One of the major challenges of the 11th Plan will be to reverse the deceleration in agricultural growth from 3.2 per cent observed between 1980 and 1996-97 to a trend average of around 2.0 per cent subsequently". "To reverse this trend, corrective policies must not only focus on the small and marginal farmers who continue to deserve special attention, but also on middle and large farmers who suffer from productivity stagnation arising from a variety of constraints." "A second green revolution is urgently needed to raise the growth rate of agricultural GDP to around 4 per cent."

Dr.Swaminathan viewed that "the banking community played an important part in enabling the Green Revolution. It should play such a role in ushering in the era of freedom from hunger. The financial institutions explored avenues for participation in agriculture and rural development. There are a few areas in need of additional attention and investment."

The Indian banks are committed to give credit to strengthen the agricultural sector. Banks are considered to be the mart of the world, the nerve centre of economies and finance of a nation and the barometer of its economic perspective. They are not merely traders in money but in fact traders in development. The Indian agriculture has rallied to become self-reliant in providing overall food security to its population of more than one billion. However, the Green Revolution has not necessarily translated into benefits for the lower strata in the economic pyramid in terms of greater food security or economic opportunity and well being.

At the present juncture, adoption of modern methods and latest technology are needed in agriculture. The need of the hour is to promote agricultural diversification,

encourage production of other food products, invest actively in rural infrastructure, and enable greater food processing and value addition to agricultural production, which would create new avenues for rural employment and income.

As in the words of H.R.Khan, while financing the farmers, the bankers have to be involved, directly or indirectly but intimately, with all the alphabets in FARMER: Finance, Allied Activities, Risk Mitigation, Marketing, Extension & Research Support and Resources other than finance.

Four decades have elapsed after the introduction of the concept of the priority sector lending (PSL). The scope of priority sector lending also has widened with the passage of time. Branch expansion facilitated the commercial banks to outreach the hitherto neglected areas. Yet, even today, poor people are hesitant to enter into the door steps of a bank either to open a savings bank account or to take a loan due to procedural problems. Still, there seems to be a big gap between the banks and poor man. However, due to improved rural connectivity and tele-density, non-farm activities are growing in rural areas. Currently, the rural market accounts for 53 per cent of the Fast Moving Consumption Goods (FMCG) and 59 per cent of the durable market in India. The rural consumers represent more than 50 per cent of the country's consuming classes. Hence, a proper change in the outlook of the banks is needed to tap the hidden potential in rural areas.

High level of non-performing assets (NPAs) and high transaction costs severely affect the credit flow to farm and non-farm sectors in the rural areas. Hence, proper change is required in the credit delivery mechanism in rural areas. This was visualized

through "Self Help Group-Bank Linkage Programme (SHG-BLP). It was started as a pilot project in 1992 and today has become a movement. The total number of SHGs so far linked with banks was 29.24 lakh. Through SHG-Bank linkage programme, banks' role is easy in providing access to credit to rural poor by group lending. This also reduces the cost of opening individual accounts and the NPAs are almost low in SHG lending.

Easy access to credit and other financial services will save the poor from the fold of traditional money lenders and this is possible through promotion of greater financial inclusion. Financial inclusion is defined as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker and low income groups at an affordable cost "(Report of the Committee on Financial inclusion in India-2008).

The policy makers are of the opinion that priority sector lending is the solution for all the economic problems. According to the Report of the Committee on Financial Inclusion (Government of India, 2008), as per NSSO data, 45.9 million farmer households in the country out of a total of 89.3 million households do not access credit, either from institutional or non-institutional sources. Without access to formal financial institutions, availing credit from formal financial institutions for priority segments is questionable. At the moment, promoting financial inclusion has become a part of India's mission or goals. Besides, it is also viewed as an opportunity to tackle poverty and deprivation. Financial inclusion is a must to bring uniform economic development, both spatially and temporally and ushering in greater economic and social equity.

On 29 December 2003, then-UN Secretary-General Kofi Annan said: "The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives.

NEED FOR THE STUDY

Srikakulam District is located on the northeastern part of Andhra Pradesh. 89 per cent of the population is living in rural areas. Agriculture is the predominant activity in the district. The average size of the land holding is less than one hectare and nearly 93 per cent are small and marginal farmers. Cultivators and agricultural labourers constitute 81 per cent of the total main workers. The percentage of workers in the agriculture sector is more, indicating the predominance of agriculture in the district. The district is endowed with rich agricultural, mineral and marine resources. The contribution of agriculture to Net District Domestic Product of the district is 16 per cent. The per capita income is the lowest relative to other districts.

Highlights of the sector-wise potential in the district:

The district is famous for Jersey cows. After agriculture, dairy has the largest potential for generating employment in rural areas. The district also enjoys congenial atmosphere for many horticulture crops. Farm mechanization and minor irrigation are also gaining importance in recent times. The growth potential for agro and food processing sectors is tremendous. SHG-bank linkage programme is playing a crucial role in developing the district.

National Bank for Agriculture and Rural Development is keen on developing 'rural haat' to ensure better marketing facilities for villagers of Srikakulam district. Under this programme, sheds will be constructed for marketing the products. In this connection, the district Collector asked NABARD official to provide funding for the developing rural haats in 14 places of the district. NABARD is also providing funding for the development of farm activity in remote places with the support of Tribal Development Fund.

The district is also famous for cashew nut growing and exports. As the district is located on the national highway No.5, there is a huge potential for marketing the poultry products. It is suitable for setting up of industries due to availability of natural resources as well as human resources at cheaper rates. An industrial awareness programme for the development of small and medium enterprises (SMEs) was organized at Pydibheemavaram of Srikakulam district. In his address at the above meeting, the President of Federation of Andhra Pradesh industries raised the issue of non-sanctioning of loans to SMEs despite the Central Government and Reserve Bank of India's guidelines that no collateral security was needed for loans below Rs.5 lakhs. He pointed out that the commercial banks, barring a few like the Andhra Bank and State Bank of India, were not sanctioning loans to SMEs. He requested the banks to take on-the-spot decisions in favour of SMEs.

Despite of huge natural resources and availability of labour at cheaper rates, the district remained as backward district in Andhra Pradesh. Migration is very high in the district due to unemployment. Illiteracy and poverty are the two aspects which hinder the progress and adequate institutional finance is the panacea for all these problems.

As per the survey conducted by the Project Director of District Rural Development Agency, there are 6000 pushcart vendors in the municipal towns of Rajam, Ichapuram, Palasa and Amadalavalasa and 2000 pushcart traders in Srikakulam Town. DRDA is planning to finance them through a DRDA-State government plan involving urban finance government institutions. The idea is to free them from the clutches of private money lenders.

The district is covered by the lead bank scheme and annual credit plans are prepared every year to infuse more credit to various sectors. Every year, NABARD conducts survey to know the potential demand for various activities. It also obtains the opinion of the farmers on bank finance and various developmental activities that are being implemented by the district administration.

Andhra Bank Institute of Rural Development (ABIRD), National Institute of Rural Development (NIRD), BREDS etc. are actively participating to give training and guidance to the unemployed youth for setting up of small scale industries. Several youth development programmes and government sponsored programmes are also being introduced in the district for the benefit of the unemployed youth. Yet, the district is still backward.

Banking development is critical for the economic development of any region and bankers' role is enhanced through priority sector lending. Annual credit plans guide the banks to purvey the credit in a systematic way to the priority sectors like agriculture, small scale industries and services sectors. This targeted lending leads to balanced development of the district.

The District Collector of Srikakulam, while releasing the Potential Linked Plan of the district for the year 2010-11 remarked that only 30-40 per cent of the credit needs of the rural people were being met, forcing them to depend upon private lenders. Banking services should be expanded to cover all the rural people. Hence, an attempt is made to know the extent of priority sector advances made by commercial banks under district credit plans/ annual credit plans for the past 11 years and their impact on economic development of the district.

The Reserve Bank of India advised all State Level Bankers Committees to select one district in each state to achieve 100 per cent financial inclusion and Srikakulam district is one among them. In State Level Bankers Committee meeting, it has claimed that it has achieved 100 per cent financial inclusion in the district. Hence, an attempt is also made to know the progress of financial inclusion in the district. Several studies on priority sector lending have been carried out in India and in other states. However, no such studies were observed to review the role of banks in developing the Srikakulam district through priority sector lending. Therefore, a study covering the aspect of priority sector lending sector-wise, bank group-wise and its impact on the economic development of the district is undertaken. In addition, banking development in terms of deposits, advances is also taken up for study.

OBJECTIVES OF THE STUDY

The following are the basic objectives of the study:

1. To examine the concept and evolution of priority sector lending in India
2. To assess the operational performance of commercial banks in general and Srikakulam district in particular
3. To evaluate the priority sector advances under district credit plans and to assess the impact of priority sector advances on the development of the Srikakulam district
4. To review the priority sector advances in the context of financial inclusion programmes in Srikakulam district
5. To identify the gaps and to suggest remedial measures to overcome them.

H_1: There is no significant difference between the growth rates of deposits in India and Andhra Pradesh

H_2: There is no significant difference between the growth rates of advances in India and Andhra Pradesh

$H_{3:}$ There is no significant difference between the growth rates of priority sector advances in India and Andhra Pradesh

$H_{4:}$ There is no significant difference in growth rates of deposits of commercial banks in Andhra Pradesh and Srikakulam district.

$H_{5:}$ There is no significant difference in growth rates of advances of commercial banks in Andhra Pradesh and Srikakulam district.

$H_{6:}$ There is no significant difference in growth rates of priority sector advances of Commercial banks in Andhra Pradesh and Srikakulam district.

$H_{7:}$ There is no significant difference in growth rates of deposits of public sector banks and private sector banks in Srikakulam District.

H_8: There is no significant difference in growth rates of advances of public sector banks and private sector banks in Srikakulam District.

H_9: There is no significant difference in growth rates of priority sector advances of public and private sector banks in Srikakulam District

$H_{10:}$ There is no significant difference between the target and achievement percentages in Crop Loans sector.

H_{11}: There is no significant difference between the target and achievement percentages in Agriculture Term Loans Sector.

H_{12}: There is no significant difference between the target and achievement percentages in Allied Activities sector.

H_{13}: There is no significant difference between the target and achievement Percentages in Non-Farm sector.

H_{14}: There is no significant difference between the target and achievement percentages in Other Priority Sector.

$H_{15:}$ There is no significant difference between the performances of Public Sector Banks and Private Sector Banks in lending to Crop Loans.

$H_{16:}$ There is no significant difference between the performances of Public Sector Banks and Private Sector Banks in lending to Agriculture Term Loans.

H_{17}: There is no significant difference between the performances of Public Sector Banks and Private Sector Banks in lending to Allied Activities sector

$H_{18:}$ There is no significant difference between the performances of Public Sector Banks and Private Sector Banks in lending to Non-Farm sector.

H_{19}: There is no significant difference between the performances of Public Sector Banks And Private Sector Banks in lending to Other Priority Sector.

$H_{20:}$ Are targets for banks fixed by considering the previous year' performance.

H_{21}: Priority sector advances have impact on the development of the District.

PERIOD OF STUDY

The study has been taken up for a period of 11 years commencing from April 2000 to March 2011 for the purpose of collection of data.

SCOPE OF THE STUDY

The present study is concerned with priority sector lending by commercial banks of Srikakulam district. The study covers the operational performance of commercial banks in terms of deposit mobilization, credit deployment, credit deposit ratio and the priority sector advances of commercial banks. Advances made to weaker sections and Differential Rate of Interest (DRI) advances are also covered, as these advances are eligible for counting as priority sector advances. As a part of the study, recovery performance and non-performing assets of commercial banks are also taken up for study.

Further, the scope of priority sector lending under district annual credit plans in Srikakulam district covers only the following five groups.

- Crop loans,
- Agriculture term loans,
- Allied activities,
- Non-farm sector and
- Other priority sector.

The scope of the study on financial inclusion is limited to review the priority sector advances in the context of financial inclusion programmes. It is intended to know the number of accounts opened by banks from the year 2006 to 2010 and population group-wise deposits and advances made by commercial banks in the district during the above period. The study should also cover the functions of Business Correspondents (BCs) and Business Facilitators (BFs) and eligible entities to act as BCs/BFs. The need and functions of Financial Literacy and Credit Counselling centre should also be covered. Self Help Group lending is an important activity which promotes greater financial inclusion and hence progress of SHG lending should be taken up for study.

METHODOLOGY

For the purpose of the study, secondary data is used. The sources of data are mainly RBI website, Basic Statistical Returns of RBI, Currency and Finance Reports of RBI, Trends and Progress of Banking in India, Reports of Lead Bank, Annual Credit Plans published by Lead Bank of Srikakulam District and State Level Bankers Committee reports, Minutes of Meeting of SLBC and NABARD reports etc. Websites of RBI, Andhra Pradesh government, NABARD, SLBC of AP and other websites are also used for the purpose of study. In addition to these, text books, Journals, magazines, websites and news papers are used.

For the purpose of analysis, percentages, simple growth rate, compound growth rate, minimum and maximum, averages, diagrams and tables are used. Correlation and regression, co-efficient of range, Wilcoxon signed rank test and Mann Whitney U test are used for the purpose of hypotheses testing,

Simple Growth Rate:

Simple growth rate is used to calculate yearly growth rate or percentage increases over the previous year.

$$SGR = \frac{Y_t - Y_{t-1}}{Y_{t-1}} * 100$$

In the above equation, Y_t stands for value of the trade variable in the year't' and Y_{t-1} stands for the value of the variable in the preceding year.

Compound Growth rate:

Compound growth rate is used to know the growth rate for over a period time based on the data for all the years.

$$CGR = \sqrt[n]{Pn/Po} - 1$$

P_n = Value of the trade variable for the last year; P_o = value of the trade variable for the first year; N= number of years.

Wilcoxon signed rank test:

It is a non-parametric test for correlated samples. The Wilcoxon signed-ranks test assesses the significance of the imbalance. This test assumes that we can rank differences between paired observations. This test is a useful alternative to the t-test. The data for the test will consist of a number of pairs of scores; each derived from a single subject, or from a pair of matched subjects. Under the null hypothesis, there is no difference in the distributions of the populations from which the samples are drawn.

Procedure:

1: Find the difference between each pair of scores, subtracting consistently (second from first, or vice versa) and recording the signs.

2. Then rank the absolute values of the differences, ignoring the sign.

3. If two scores in a pair are the same (that is, if the difference is zero), that pair is ignored altogether.

4. If two values of the difference are tied, they are given the mean of the ranks they would have had if they had been different in value.

5. Each rank is now given the sign of the difference it corresponds to.

6. The sum of the positive ranks is found, and also that of the negative ranks. The smaller of these two sums is the test statistic *W*. With a sample of size N = 10 or greater, the approximation is close enough to allow for the calculation of a z – ratio, which can then be referred to the unit of normal distribution.

$$Z = \frac{W-.5}{W}$$

If the observed value of z is less than the critical value, accept the hypothesis.

Mann Whitney U test:

It is a statistical test used to test the null hypothesis $u_1=u_2$.

$$U_A = n_a n_b + \frac{n_a(n_a+1)}{2} - T_a$$

Ta = The observed sum of ranks for sample A.

If the observed value of z is less than the critical value, accept the hypothesis.

Co-efficient of Range:

Co-efficient of range is used to know consistency of the variables.

$$\text{Co-efficient of Range} = \frac{L-S}{L+S}$$

L= Largest value and S= Smallest value.

Correlation and regression:

This test is used to know the correlation between priority sector advances and gross domestic product of the district.

Regression is used to test the significance of the priority sector advances in developing the region.

SCHEME OF PRESENTATION

The study is based on the secondary data. The data collected from various sources are analyzed critically. A brief account of the analysis is given below.

The first chapter of the thesis gives an introduction to the topic 'priority sector lending'. It also touches the importance of priority sector lending in view of giving food security and employment to the nation. It gives an over view of the concept of the thesis. It also deals with the framework of the thesis. It discusses the need for the study, scope of the study, objectives, methodology and limitations of the study.

The second chapter gives an extensive review of literature. The review gives an insight in to the trends and progress of priority sector lending and its significance on

economic development. The review also covers the trends in credit deposit ratio, non-performing assets and financial inclusion.

The third chapter gives an idea of the growth of banking in India from the early years of independence to 2011. It also reviews the operational performance of the commercial banks in India and Andhra Pradesh in terms of deposits, advances, credit deposit ratio and priority sector advances.

The fourth chapter presents the concept of priority sector lending. It demonstrates the evolution of priority sector lending from 1969 to 2011. It also gives a clear picture of various insertions made to priority sector lending from its inception.

The fifth chapter deals with the profile of the select district – Srikakulam.

The sixth chapter deals with the performance of commercial banks in Srikakulam district. It presents a clear picture of commercial banks' performance in mobilization of deposits, advancing loans, credit deposit ratio and the total priority sector advances granted by commercial banks in Srikakulam district. It also covers the weaker section advances and Differential Rate of Interest (DRI) advances made by commercial banks in the district. It also deals with the recovery performance of the banks and the non-performing assets of commercial banks at the district level.

The seventh chapter deals exclusively about priority sector lending under district credit planning in Srikakulam District. It covers the targets assigned to commercial banks in annual credit plans and their performance in regard to these targets. It also covers the impact of priority sector lending on the development of the district.

The eighth chapter deals with the financial inclusion programmes to review the priority sector advances. The financial inclusion is examined in terms of opening of no-frills accounts and population group-wise deposits and advances of commercial banks. It covers the functions of Business Correspondents and Business Facilitators model and Financial Literacy and Credit Counselling Centres. It also presents the progress of Self-help Groups in the district.

The ninth chapter summarizes the results from the entire study. It also offers some useful suggestions.

LIMITATIONS

The study is limited to the operational performance of the commercial banks in Srikakulam district. As far as the study is concerned, there are no major limitations. The data pertaining to the district is taken from the Lead bank cell of Srikakulam district. However, accuracy of data is a limitation for the study. As far as possible the data is collected from the website of Reserve Bank of India and other government websites which are authorized sources of data on commercial banks at All India and Andhra Pradesh levels.

The data is critically analyzed by using appropriate tools and the hypotheses H_1 to H_{21} are tested and the hypotheses are accepted. It is proved that there is no significant difference between the deposits, advances and priority sector advances of commercial banks at the national and state levels. Further it is proved that there is no significant difference between the deposits, advances and priority sectors of public sector banks and private sector banks and banks at the district level and state level. It is proved that there is

no significant difference between the targets and achievements of the banks and the advances of different bank groups to various sectors.

SUGGESTIONS:

- As the rural business accounts for sixty percent of the total banking business, the nationalized banks and private sector banks should extend their services to rural areas to make good the business opportunity.
- The newly entered public sector banks and private sector banks are enthusiastic to collect deposits in the district but reluctant to advance loans. Hence, Reserve Bank of India should direct them to start their branches in any one of the unbanked villages having population of five thousand and above instead of opening branches in district headquarters. They can make use of the services of Business correspondents or use mobile banking in rural areas where it is not possible to open bank branches.
- The priority sector advances to total deposits of private sector banks is gradually declining and hence proper monitoring by Reserve Bank of India is required in directing the banks to use the locally mobilized deposits for local development.
- The District Consultative Committee should make proper appraisal of non-adherence to targets by certain banks and proper monitoring and reporting system is to be devised for this purpose.
- The study reveals that banks have failed to meet the targets in crop loans in more number of years though there is demand potential. Hence, this should be dealt with immediately.

- Industrial awareness programmes are to be conducted for the development of small and medium enterprises (SMEs)
- Use of the services of Business correspondents is essential to promote financial inclusion. The road map was already prepared and it should be translated into action quickly.
- Targets under district credit plans should be increased as the credit extended by banks covers only thirty to forty percent of the credit needs of the district.
- It is of great use if banks maintain separate record for no-frills accounts opened by them as it is an evidence of their interest in promotion of financial inclusion.
- Private Banks should also take part in penetrating the rural business on par with the public sector banks.
- Banks have to improve their recovery performance by adopting appropriate methods, as the recovery performance indicates the efficiency of the banks.
- Lead bank should organize loan melas in rural areas to create awareness about the various deposits schemes, interest rates on deposits and loans. Banks should devise suitable schemes taking into account the needs of the area. Financial Literacy-cum-Credit Counselling centre has to play a lead role in credit counselling aspect. They have to create awareness about use of formal finance than taking loans from local money lenders at high rates.
- Awareness of banking concept in rural areas should be redefined for rural population. It can be visualized by using different communication methods like play lets, burrakathas, puppet shows, folk songs and short films etc. which will be appreciated by the rural folk.

- Banks have to conduct awareness camps in rural areas to inculcate the habit of thrift among the poor. The same may be of useful in the areas where urban poor are residing.
- The analysis shows that the advances to agricultural sector yield less income compared to other sectors. Though loans to agriculture sector yield low productivity, it is important to provide loans to this sector in view of the nation's food security.
- The share of rural and semi-urban deposit accounts and amounts exhibited a declining trend. Banks should initiate measures to improve this share by using appropriate technology and various modes of delivery channels.
- Adequate bank linkage should be provided for social development through various schemes.
- Reserve Bank of India may appoint monitoring committees to verify whether the banks are giving loans to small scale industries as per the guidelines or not as the nationalized banks are not sanctioning loans for these industries on the pretext of piling up of overdues.
- Government may organize 'Parishramika Baata' on the lines of 'Pallebata or Nagarabata'.

CONCLUSION

Priority sector lending is intended to improve the standard of living of the people by proving adequate credit flow to various sectors like agriculture, small scale industries and other priority activities which generate income to the poor for their livelihood. The private sector banks exhibited a better performance in terms of deposit mobilization and

the public sector banks had played a key role in advancing loans to priority sectors in the district. The market share of commercial banks in priority sector lending constitutes sixty percent of the total business in the district. Advances to other priority sector are exerting high yield compared to other sectors. Particularly this is low for agriculture sector. Yet, advances to crop loans are important in view of the food security and also due to its predominance in India.

The advances given to priority sectors exerted considerable value addition to gross domestic product of the district and the per capita income has almost increased three times during the period of ten years. Hence, the objectives of priority sector lending are fulfilled. The efforts that are made by the banks and district authorities in strengthening SHGs are appreciable. Better recovery and greater financial inclusion are the two advantages that make the SHG lending definitely a good proposition for the banks. SHGs should be made more outreacheable and sustaining by better guidelines from Reserve Bank of India as this is the best method for both financial inclusion and banking to rural areas.

- Rural banking hence achieves the twin objectives of the Indian constitution by bringing about growth through raising the GDP in the area and the social objective through financial inclusion of the underprivileged.